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Nos. 14-1513, 14-1520

In the Supreme Court of the United States

HALO ELECTRONICS, *Petitioner,*

v.

PULSE ELECTRONICS, INC., ET AL., *Respondents.*

STRYKER CORPORATION, ET AL., *Petitioners,*

v.

ZIMMER, INC., ET AL., *Respondents.*

On Writs of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* INNOVENTION TOYS, LLC IN SUPPORT OF PETITIONERS

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Table of Contents

Page

Table of Contents i

Table of Authorities ii

Interest of *Amicus Curiae* 1

Introduction and Summary of Argument 2

Argument 4

I. Willfulness Should Be Based on a Totality of the Circumstances 4

II. Willfulness Should be Treated as a Factual Determination That is Reviewed for Substantial Evidence/Clear Error. 10

III. The Standard of Proof for Willfulness Should Be A Preponderance of the Evidence 12

IV. Section 284 Gives "*The Court*" Discretion to Enhance Damages; a District Court's Enhancement of Damages Should Be Reviewed for an Abuse of Discretion 13

V. Enhancement of Damages Under Section 284 Should Not Require a Finding of Willfulness 15

Conclusion 15

Table of Authorities

Page(s)

Cases

A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020 (Fed. Cir. 1992) 6

Akamai Techs., Inc. v. Cable & Wireless Internet Servs., Inc., 344 F.3d 1186 (Fed. Cir. 2003) 11, 12

Amsted Indus., Inc. v. Buckeye Steel Castings Co., 24 F.3d 178 (Fed. Cir. 1994) 14

Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964) 15

Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc., 682 F.3d 1003 (Fed. Cir. 2012) 4, 7, 8

Bott v. Four Star Corp., 807 F.2d 1567 (Fed. Cir. 1986) 5, 6, 8

Braun Inc. v. Dynamics Corp. of Am., 975 F.2d 815 (Fed. Cir. 1992) 10

Central Soya Co., Inc. v. Geo. A. Hormel & Co., 723 F.2d 1573 (Fed. Cir. 1983) 6, 8

Dennison Mfg. Co. v. Panduit Corp., 475 U.S. 809 (1986) (per curiam) 11

Farmer v. Brennan, 511 U.S. 825 (1994) 6

Fishman Transducers, Inc. v. Paul, 684 F.3d 187 (1st Cir. 2012) 7

Graham v. John Deere Co., 383 U.S. 1 (1966) 9, 10, 11, 12

Halo Electronics, Inc. v. Pulse Electronics, Inc., 769 F.3d 1371 (Fed. Cir. 2014) (O'Malley, J., concurring) 12, 13, 14

Halo Electronics, Inc. v. Pulse Electronics, Inc., 780 F.3d 1357 (Fed. Cir. 2015) (O'Malley, J., dissenting, joined by Hughes, J.) 5, 8

Halo Electronics, Inc. v. Pulse Electronics, Inc. (Docket No. 14-1513) 2, 4, 16

Herman & MacLean v. Huddleston, 459 U.S. 375 (1983) 13

Highmark Inc. v. Allcare Health Mgmt. Sys., Inc., 134 S. Ct. 1744 (2014) 2, 3, 5, 14

Hoechst Celanese Corp. v. BP Chems. Ltd., 78 F.3d 1575 (Fed. Cir. 1996) 9

In re Seagate Tech., LLC, 497 F.3d 1360 (Fed. Cir. 2007) ..... *passim*

Innovention v. MGA, (611 F. App'x 693 (Fed. Cir. 2015) 12

Innovention Toys, LLC v. MGA Entertainment, No. 15-635 (U.S. Nov. 10, 2015), 2015 WL 7180653 .....2, 4, 9, 11, 12

Nat'l Presto Indus., Inc. v. West Bend Co., 76 F.3d 1185 (Fed. Cir. 1996).....10, 14

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014) .....*passim*

Pierce v. Underwood, 487 U.S. 552 (1988) 3, 14

Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc., 508 U.S. 49 (1993) 7, 8

Read Corp. v. Portec, Inc., 970 F.2d 816 (Fed. Cir. 1992)..... 9

Safeco Ins. Co. of Am. v. Burr, 551 U.S. 47 (2007) 6, 15

SRI Int'l, Inc. v. Advanced Tech. Labs., Inc., 127 F.3d 1462 (Fed. Cir. 1997) 5, 8, 10, 14, 15

Stryker Corp. v. Zimmer, Inc. (Docket No. 14-1520) 2, 4, 16

Teva Pharm. USA, Inc. v. Sandoz, Inc., 135 S. Ct. 831 (2015) 10, 11

TXO Prod. Corp. v. Alliance Res. Corp., 509 U.S. 443 (1993) 7

Vulcan Eng'g Co., Inc. v. Fata Aluminum, Inc., 278 F.3d 1366 (Fed. Cir. 2002) 10

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969) 11

Statutes

35 U.S.C.
§ 284 ..... *passim*
§ 285 ..... *passim*
§ 298 9

Other Authorities

Restatement (Second) of Torts § 500 (Am. Law Inst. 1965) 6, 7

W. Keeton, et al., *Prosser and Keeton on Law of Torts* § 34 (5th Edition 1984) 7

Interest of *Amicus Curiae*

Innovention Toys, LLC ("Innovention"),[1] is a small Louisiana toy company that was formed by a former Tulane professor and two of his students to make and sell their patented invention: an innovative strategy board game called "Khet," which includes movable pieces with lasers and mirrors. Innovention's Khet game was knocked off by toy giant MGA Entertainment, Inc. ("MGA")—the "Bratz" doll company. After nearly seven years of litigation, Innovention finally obtained a final judgment of willful patent infringement, along with treble damages and attorney fees.

Unfortunately, Innovention then fell victim to the Federal Circuit's arcane and unworkable two-prong test for willful infringement under 35 U.S.C. § 284. In its opinion reversing the district court's decision on willfulness, the court of appeals inexplicably found that MGA's flimsy obviousness defense was "objectively reasonable"—improperly substituting its own judgment for that of both the jury and the trial court, which were much closer to the evidence. Innovention filed a petition for writ of *certiorari* on November 10, 2015. *See* Pet. for Writ of

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[1] No counsel for a party authored this brief in whole or in part. No one other than *amicus curiae* or its counsel made a monetary contribution intended to fund the preparation or submission of this brief. Other than respondent Zimmer, Inc. (Docket No. 14-1520), all parties in the two consolidated cases have filed waivers consenting to the submission of briefs by *amici curiae*. However, Innovention concurrently files with the Clerk of the Court a letter of consent from Zimmer, Inc. for the filing of this brief.

Certiorari, *Innovention Toys, LLC v. MGA Entertainment, et al.*, No. 15-635 (U.S. Nov. 10, 2015), 2015 WL 7180653 ("*Innovention* Pet.").

Accordingly, *amicus* Innovention has a direct and substantial interest in the issues presented, and respectfully submits this brief in support of the positions of the petitioners in the two cases that are consolidated before the Court: *Halo Electronics, Inc. v. Pulse Electronics, Inc.* (Docket No. 14-1513) and *Stryker Corp. v. Zimmer, Inc.* (Docket No. 14-1520). Innovention agrees with the petitioners in those cases that the Court should reject the Federal Circuit's rigid two-prong standard for willful infringement under Section 284. In its place, Innovention respectfully submits that the Court should reinstate more flexible standards that are consistent with both prior precedent and this Court's decisions relating to 35 U.S.C. § 285, a statute with language that is very similar to the relevant passage in Section 284. *See Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014).

Introduction and Summary of Argument

Amicus Innovention respectfully asks this Court to correct the Federal Circuit's standards for both the determination and review of willful infringement and enhancement of damages under Section 284, especially in light of the Court's decisions in *Octane Fitness* and *Highmark*. Willfulness should simply be based on a consideration of the totality of the circumstances (including all subjective and objective factors), and

should be decided as a factual issue that is reviewed for substantial evidence (if decided by the jury), or clear error (if decided by the district court). This standard for willfulness would be consistent with the Court's interpretation of Section 285 for the determination of "exceptional case" and attorney fees, as set forth in *Octane Fitness*. To conform the standard for willful patent infringement to the Court's prior precedents, the standard of proof for willfulness should also be preponderance of the evidence, not clear and convincing evidence.

A district court's enhancement of damages under Section 284 should also be reviewed under an abuse of discretion standard. As with awards of attorney fees under Section 285, "the district court is 'better positioned' to decide" whether enhanced damages are appropriate, "because it lives with the case over a prolonged period of time." *Cf. Highmark*, 134 S. Ct. at 1748 (quoting *Pierce v. Underwood*, 487 U.S. 552, 559-60 (1988)). Each enhancement decision "is 'multifarious and novel,' not susceptible to 'useful generalization' of the sort that *de novo* review provides." *Id.* at 1748-49 (same). Finally, consistent with this Court's precedents, enhancement of damages under Section 284 should not require a finding of willful infringement.

The Court's correction of these standards will prevent future situations in which the Federal Circuit improperly substitutes its own judgment about the supposed "objectiveness" of a defense for the reasoned judgment of a district court—which is much closer to the case—regarding *all* of the circumstances relevant to enhancement and willfulness. The case involving *amicus* Innovention

provides a pointed example. After hearing all of the evidence, the jury in that case found that defendant MGA willfully infringed Innovention's patent. The district court then issued a 63-page order in which it performed a detailed analysis of all of the factors—both "subjective" and "objective"—regarding MGA's willful infringement. This included detailed evidence of MGA's copying of the patented invention, MGA's knowledge of the patent, and MGA's substantial litigation misconduct, including its attempt to use the attorney-client privilege as both a sword and a shield to prevent inquiry into MGA's lack of any good faith justification for its copying and infringement of the valid patent of a much smaller competitor. *See Innovention* Pet. at 10-18.

Accordingly, *amicus* Innovention respectfully asks the Court to use the consolidated *Halo* and *Stryker* cases as a vehicle to correct the Federal Circuit's jurisprudence regarding willfulness and enhancement of damages under Section 284.

Argument

I. WILLFULNESS SHOULD BE BASED ON A TOTALITY OF THE CIRCUMSTANCES.

The test for willful patent infringement under Section 284 should be based on a totality of the circumstances, regardless of whether any particular factor is "objective" or "subjective." The Federal Circuit's decisions in *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007), and *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003 (Fed. Cir. 2012), created a two-prong willfulness test that needs to be corrected in view of *Octane*

Fitness and *Highmark*. When the Federal Circuit decided *Seagate* in 2007, Judge Newman foresaw "new uncertainties . . . introduced by the court's evocation of 'objective standards' for such inherently subjective criteria as 'recklessness' and 'reasonableness.'" *Seagate*, 497 F.3d at 1385 (Newman, J., concurring).

Time has confirmed that the *Seagate* test is an "artificial and awkward construct," much like the Federal Circuit's former test for "exceptional case" under § 285, which this Court overruled in *Octane Fitness*. As several Federal Circuit judges have already recognized:

> In rejecting the rigid two-prong, subjective/objective test for § 285 under *Brooks Furniture*, moreover, the Supreme Court told us to employ a flexible totality of the circumstances test. . . We should now assess whether a [similar] flexible test . . . is also appropriate for an award of enhanced damages.

Halo Electronics, Inc. v. Pulse Electronics, Inc. ("*Halo 2015*"), 780 F.3d 1357, 1362-63 (Fed. Cir. 2015) (O'Malley, J., dissenting, joined by Hughes, J.).

Before *Seagate*, the test for willfulness was based on a "totality of the circumstances." *See, e.g.*, *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997) ("The court will determine whether the advice of noninfringement or invalidity or unenforceability could have reasonably been relied on, and whether, on the totality of the circumstances, exculpatory factors avert a finding of willful infringement."); *Bott v. Four Star Corp.*, 807

F.2d 1567, 1572 (Fed. Cir. 1986), *overruled on other grounds by A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1038-39 (Fed. Cir. 1992) ("In determining whether an infringer acted in bad faith as to merit an increase in damages awarded against him, the court will consider the totality of the circumstances . . . "); *Central Soya Co., Inc. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983) ("It is necessary to look at 'the totality of the circumstances presented in the case' in determining whether a reasonable person would prudently conduct himself with any confidence that the courts might hold the patent invalid." (internal citation omitted)).

Reading *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47 (2007), the Federal Circuit adopted the objective/subjective willfulness test. *Seagate*, 497 F.3d at 1370-72. But *Safeco* did not create a two-prong test for willfulness—much less suggest one for patent infringement. Rather, *Safeco* equated willful violations of the Fair Credit Reporting Act ("FCRA") with common law "recklessness." *Safeco*, 551 U.S. at 56-60. The Court noted:

> While "the term recklessness is not self-defining," the common law has generally understood it in the sphere of civil liability as conduct violating an objective standard: action entailing "an unjustifiably high risk of harm that is either known or so obvious that it should be known."

551 U.S. at 68-69 (citing *Farmer v. Brennan*, 511 U.S. 825, 836 (1994); Restatement (Second) of Torts § 500

(Am. Law Inst. 1965); W Keeton, et al., *Prosser and Keeton on Law of Torts* § 34 (5th ed.1984)).

But under tort law, including other business torts like trademark infringement, courts routinely allow juries to determine willfulness as a fact issue, with appropriate instructions from the trial court. *See, e.g., Fishman Transducers, Inc. v. Paul*, 684 F.3d 187, 191-93 (1st Cir. 2012) (question of willfulness decided by jury). Indeed, a determination of willfulness under tort law does not mandate separate decisions by the court and the jury on objective and subjective recklessness. Rather, with proper instructions, the jury can decide the entire question of willfulness (or recklessness), which is largely fact-driven. *See, e.g., TXO Prod. Corp. v. Alliance Res. Corp.*, 509 U.S. 443, 463 n.29 (1993) (affirming jury verdict of punitive damages for slander of title based on jury's finding of "wanton, willful, malicious or reckless conduct," where jury was instructed to "take into consideration all of the circumstances surrounding the particular occurrence").

The Federal Circuit's *Bard* decision amplified the difficulties of *Seagate*. As Judge O'Malley observed, the *Seagate/Bard* two-step test closely parallels the now overruled *Brooks Furniture* test for attorney fees under § 285, which were both predicated on *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* ("*PRE*"), 508 U.S. 49 (1993):

> We have gone so far, moreover, to require that an evidentiary wall be erected between the objective and subjective portions of the inquiry.

> We preclude considerations of subjective bad faith—no matter how egregious—from informing our inquiry of the objective baselessness of a claim and preclude the weakness [of] a claim or defense from being indicative of a [party's] subjective bad faith. *We now know that the artificial and awkward construct we had established for § 285 claims is not appropriate. We should assess whether the same is true with respect to the structure we continue to employ under § 284.*

Halo 2015, 780 F.3d at 1362 (O'Malley, J., dissenting) (emphasis added) (citations omitted). Indeed, *Octane Fitness* held that "[t]he Federal Circuit's formulation [in *Brooks Furniture*] is overly rigid," and the subjective/ objective "formulation superimposes an inflexible framework onto statutory text that is inherently flexible." *Octane Fitness*, 134 S. Ct. at 1756. Like § 285, "there is nothing in the text of § 284 that justifies the use of the *PRE* narrow standard." *Halo 2015*, 780 F.3d at 1362 (O'Malley, J., dissenting).

Amicus Innovention urges the Court to reinstate the "totality of the circumstances" test that was applied for decades prior to *Seagate* and *Bard*. *See, e.g., SRI Int'l, Inc.*, 127 F.3d at 1465; *Bott*, 807 F.2d at 1572; *Central Soya Co., Inc.*, 723 F.2d at 1577. Based on these and other cases, a "totality of the circumstances" should include consideration of both subjective and objective factors, including, for example: (1) deliberate copying or independent invention; (2) attempts to design around; (3) investigation of infringement and validity; (4) reasonableness of defenses actually presented;

(5) timing of development of a defense; (6) failure to apply the court's claim construction; and (7) litigation conduct. *See Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992) (outlining non-exclusive factors for consideration in determining whether to enhance damages based on totality of circumstances), *superseded on other grounds as recognized by Hoechst Celanese Corp. v. BP Chems. Ltd.*, 78 F.3d 1575 (Fed. Cir. 1996). Of course, failure to obtain or present as evidence advice of counsel would not be considered. *See* 35 U.S.C. § 298 (2012).

A correction of the standard for willful infringement will prevent future situations in which the Federal Circuit improperly substitutes its own judgment for that of trial court—even when almost all of the relevant factors favor the patent holder. For example, in the case that is the subject of Innovention's currently pending petition for writ of *certiorari*, an application of the totality of the circumstances test would have compelled affirmance of the district court's judgment of willful infringement. In that case, MGA deliberately copied Innovention's patented game, had no reasonable defense (it failed on every contested obviousness factor under *Graham v. John Deere Co.*, 383 U.S. 1 (1966)), presented no evidence of any investigation of noninfringement or invalidity, failed to apply the district court's claim construction, engaged in misconduct throughout the litigation, and employed particularly aggressive tactics immediately prior to and during trial. *See Innovention* Pet. at 5-18. In similar situations, district courts and juries should be permitted to find willful infringement—regardless of whether three appellate judges believe that an unsupported defense was nevertheless "reasonable."

II. WILLFULNESS SHOULD BE TREATED AS A FACTUAL DETERMINATION THAT IS REVIEWED FOR SUBSTANTIAL EVIDENCE/CLEAR ERROR.

Amicus Innovention respectfully asks the Court to return to the prior rule that willfulness is a question of fact to be reviewed for substantial evidence (if decided by a jury) or clear error (if decided by the district court). Indeed, the same fact-finder that considers the factual issues relating to infringement, anticipation, and the *Graham* obviousness factors is well-positioned to decide whether the infringer acted willfully. *See, e.g.*, *Vulcan Eng'g Co., Inc. v. Fata Aluminum, Inc.*, 278 F.3d 1366, 1378 (Fed. Cir. 2002) (willfulness is a factual question, reviewed for clear error); *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997) ("[A]ppellate review requires appropriate deference to the special role of the trial court in making such determinations."); *Nat'l Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1193 (Fed. Cir. 1996) (same); *Braun Inc. v. Dynamics Corp. of Am.*, 975 F.2d 815, 822 (Fed. Cir. 1992) (jury's determination reviewed for substantial evidence).

Indeed, the Court recently considered appellate review in patent cases for issues involving factual determinations, similar to willfulness. In *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831 (2015), the Court held that underlying factual findings in support of a trial court's decision on claim construction are subject to deferential "clear error" review. Significantly, the Court drew a parallel between the fact-finding necessary for both claim construction and obviousness, and emphasized that

these "'subsidiary determinations of the District Court'" may be reviewed only for clear error. *Id.* at 838 (quoting *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 811 (1986) (per curiam)). Importantly, willfulness requires at least as much subsidiary fact-finding as obviousness or claim construction.

As *Teva* makes clear, the Federal Circuit (like any other appellate court) may not freely reject or ignore factual findings of the district court. To the contrary, "appellate courts must constantly have in mind that their function is not to decide factual issues *de novo*." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 123 (1969). Respect for factual findings is "particularly" vital in the technical and often-complex battleground of patent disputes, where the trier of fact "has presided over, and listened to, the entirety of a proceeding [and so] has a comparatively greater opportunity to gain that familiarity than an appeals court judge who must read a written transcript or perhaps just those portions to which the parties have referred." *Teva*, 135 S. Ct. at 838.

These concerns are heightened when a jury has made specific factual findings on issues like copying, willfulness, and the *Graham* obviousness factors—as in the case relating to Innovention's pending petition for writ of *certiorari*. *See Innovention* Pet. at 10-11. Jury findings are reviewed for substantial evidence, *see, e.g., Akamai Techs., Inc. v. Cable & Wireless Internet Servs., Inc.*, 344 F.3d 1186, 1192 (Fed. Cir. 2003), a standard among the most deferential in law. Under this deferential standard, the appellate court "must draw all reasonable inferences in favor of the prevailing

party, and not make credibility determinations or substitute [its] view of the conflicting evidence for that of the jury." *Id.* Yet, in *Innovention v. MGA*, the Federal Circuit improperly imposed its own judgment that "the gap between the prior art and Innovention's claims" was "not particularly large," (611 F. App'x 693, 700 (Fed. Cir. 2015))—ignoring the factual findings of the district court and the jury that MGA had failed on every *Graham* factor, including the fact that there were differences between the prior art and the claims. *See Innovention* Pet. at 10-18.

A recognition that willfulness is a factual issue does not diminish the district court's responsibility to decide whether (and to what extent) to enhance damages under § 284. As Judge O'Malley observed: "The mere presence of factual components in a discretionary inquiry does not remove that inquiry from the court to whom congress reposed it." *Halo Electronics, Inc. v. Pulse Electronics, Inc.* ("*Halo 2014*"), 769 F.3d 1371, 1386 (Fed. Cir. 2014) (O'Malley, J., concurring). Thus, enhancement is a separate question within the district court's discretion after a willfulness decision.

III. THE STANDARD OF PROOF FOR WILLFULNESS SHOULD BE A PREPONDERANCE OF THE EVIDENCE.

Amicus Innovention respectfully submits that the standard of proof for willfulness should be a preponderance of the evidence, not clear and convincing evidence. In rejecting that standard in *Octane Fitness*, the Court observed:

> [N]othing in § 285 justifies such a high standard of proof. Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one. Indeed, patent-infringement litigation has always been governed by a preponderance of the evidence standard, and that is the "standard generally applicable in civil actions," because it "allows both parties to 'share the risk of error in roughly equal fashion.'"

134 S. Ct. 1749, 1758 (2014) (citations omitted) (citing *Herman & MacLean v. Huddleston*, 459 U.S. 375, 390 (1983)). As with § 285, nothing in § 284 requires proof of willfulness by clear and convincing evidence. Judge O'Malley noted that courts in copyright and trademark cases only require proof of willfulness by a preponderance of the evidence. *Halo 2014*, 769 F.3d 1371, 1385 (Fed. Cir. 2014) (O'Malley, J., concurring) ("[Section] 284 has no language that would justify a higher standard of proof."). Without any statutory or other justification for a higher standard of proof, *amicus* respectfully submits that the Court should clarify that willfulness should be proven by a preponderance of the evidence.

IV. SECTION 284 GIVES "*THE COURT*" DISCRETION TO ENHANCE DAMAGES; A DISTRICT COURT'S ENHANCEMENT OF DAMAGES SHOULD BE REVIEWED FOR AN ABUSE OF DISCRETION.

A district court's decision on whether (and how much) to enhance damages should be reviewed for an abuse of discretion—not *de novo*. The statute itself

states that "*the court may* increase the damages up to three times the amount found." 35 U.S.C. § 284 (emphasis added). *Highmark* held that very similar language in Section 285—"*[t]he court* in exceptional cases *may* award reasonable attorney fees"—required review for abuse of discretion, holding that the district court "'is better positioned' to decide whether case is exceptional, because it lives with the case over a prolonged period of time." 134 S. Ct. 1744, 1748-49 (2014) (emphasis added) (citing *Pierce v. Underwood*, 487 U.S. 552, 559 (1988), which held that under the applicable statute there, "attorney's fees shall be awarded 'unless *the court finds* that the position of the United States was substantially justified"). As in *Highmark* and *Pierce*, the district court "is better positioned" to decide enhanced damages "because it lives with the case over a prolonged period of time."

In light of *Highmark*, two judges on the Federal Circuit suggested that enhanced fees under § 284 should also be reviewed for an abuse of discretion. *Halo 2014*, 769 F.3d at 1385-86 (O'Malley, J., concurring, joined by Hughes, J.) ("[W]e must also consider whether a district court's finding of willfulness should be subject to de novo review.").

Review of fee enhancements for an abuse of discretion is also consistent with earlier cases that interpreted Section § 284. *See, e.g., SRI Int'l, Inc. v. Advanced Tech. Lab., Inc.*, 127 F.3d 1462, 1468-69 (Fed. Cir. 1997); *Nat'l Presto Indus. Inc. v. West Bend Co.*, 76 F.3d 1185, 1193-94, (Fed. Cir. 1996); *Amsted Indus., Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 183 (Fed. Cir. 1994). *Amicus* respectfully submits that the Court should correct the standard of review used by the Federal Circuit for enhancement under

§ 284, which is currently *de novo*. Instead, the Court should mandate an abuse of discretion standard.

V. ENHANCEMENT OF DAMAGES UNDER SECTION 284 SHOULD NOT REQUIRE A FINDING OF WILLFULNESS.

Finally, a district court's discretion to enhance damages under § 284 should not be limited to instances of willful infringement. Not only does § 284 give the district court discretion to enhance, nothing in the statute restricts enhancement to cases of willful infringement: "In either event the court may increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284.

As Judges Gajarsa and Newman observed in *Seagate*, both the Copyright Act and the FCRA (analyzed by the Supreme Court in *Safeco*) include the word "willfully," while Section 284 does not. *In re Seagate Tech., LLC*, 497 F.3d 1360,1381-82 (Fed. Cir. 2007). Moreover, pre-*Seagate* cases held that the district court could enhance damages based on willfulness or "bad faith." *See, e.g., Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) ("in a case of willful or *bad-faith* infringement," plaintiff could recover increased damages under § 284 (emphasis added)); *SRI Int'l v. Advanced Tech. Labs.*, 127 F.3d 1462, 1468-69 (same). Thus, at a minimum, enhanced damages under § 284 should also be available for "bad faith" infringement, even if not willful.

Conclusion

For the forgoing reasons, *amicus* Innovention Toys, LLC, respectfully asks the Court to use the

Halo and *Stryker* cases as a vehicle to correct the Federal Circuit's standards for the determination and review of willful patent infringement and enhanced damages under 35 U.S.C. § 284. In particular, Innovention urges the Court to hold that: (1) willfulness is to be determined based on a totality of the circumstances, not the two-prong *Seagate* test; (2) willfulness is a factual issue to be reviewed for substantial evidence/clear error; (3) the standard of proof for willfulness is preponderance of the evidence, not clear and convincing evidence; (4) a district court's enhancement decision is to be reviewed for an abuse of discretion, not *de novo*; and (5) enhanced damages do not require a finding of willful infringement.

Respectfully Submitted,

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